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# AICPA *Washington Report*

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## DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Final rules authorizing depository institutions to issue one year tax exempt all savers certificates (ASC) were issued 9/3/81, to be effective 10/1/81. The Committee, acting in accordance with the Economic Recovery Tax Act of 1981, stipulated that the ASCs must: have an annual investment yield equal to 70 percent of the average investment yield for 52 week U.S. Treasury bills; be offered in denominations of \$500, but can also be offered in any other denominations; only be issued from 10/1/81 to 12/31/82; and, have a maturity of one year. The ASCs will be subject to existing rules for other types of deposits including rules regarding premiums, early withdrawals and broker's or finder's fees. The depository institutions must give ASC buyers notice of tax implications of interest earned as well as certify that the institution has satisfied the qualified residential and agricultural financing provision of the Act. The DIDC press release announcing the adoption of the rules indicated that IRS Commissioner Roscoe L. Egger, Jr. said that the "IRS has reviewed pertinent portions of the DIDC final rules and finds them consistent with the applicable provisions of the Internal Revenue Code."

## FEDERAL RESERVE BOARD

A Board interpretation of its NOW account eligibility rules scheduled to become effective 9/1/81, has been suspended according to a recent Federal Reserve press release. The Board's 8/14/81 interpretation of Regulation Q clarified which depositors are eligible to hold interest bearing checking accounts at member banks. The interpretation would permit the following depositors to establish NOW accounts: all individuals, including businesses operated as sole proprietorships; non-profit organizations described in specified sections of the Internal Revenue Code; and, government units, if the funds are in the name of or are used for the purposes of schools, colleges, universities, hospitals or other medical or educational facilities. The Federal Home Loan Bank Board issued a somewhat broader interpretation of NOW account eligibility on 8/13/81 (see the 8/17/81 Wash. Rpt.). On 8/18/81, the American Bankers Association brought suit challenging the interpretations of both agencies. In light of this pending litigation, the interpretation 12CFR 217.157 has been suspended by the Board. The FHLBB has also suspended the effective date of its rule on NOW account eligibility (see the 8/31/81 Fed. Reg., p. 43655).

## GENERAL ACCOUNTING OFFICE

Revisions of the GAO publication, "Guidelines for Financial Compliance Audits of Federally Assisted Programs," will be made in an effort to improve compliance with OMB Circular A-102, the so-called "single audit concept," according to information recently released by GAO. This effort is occurring simultaneously with efforts of other groups to improve the implementation of Circular A-102, including an AICPA task force which is writing an audit guide to be used by CPAs conducting "single audits." A draft of the AICPA audit guide is expected to be available for public comment prior to the end of the year. Individuals wishing to address comments for consideration by the GAO in its revision can submit their views to Joseph F. Moraglio, Director, Federal Government Division, AICPA, in the Washington, D.C. office. All comments will be forwarded to the GAO.

## INTERSTATE COMMERCE COMMISSION

The Commission granted preliminary certification of railroad cost accounting system compliance with the uniform system of accounts (USOA), for all class

I railroads by a recent order (see the 9/4/81 Fed. Reg., p. 44528). The order provides preliminary certification to all Class I railroads who, upon filing their requests for certification, were requested to certify that: the conversion system used to convert internal accounting data to Commission reports produced data in accordance with USOA; converted data was subjected to regular edits for compliance and reasonableness; and, all accounting exceptions taken by Commission auditor during their most recent compliance audit have been corrected or resolved with the Regional Auditor.

#### SECURITIES AND EXCHANGE COMMISSION

The remarks of SEC Chairman John S.R. Shad in his appearance before the Annual Meeting of the American Accounting Association, 8/7/81, have been made available by the SEC for public distribution. It was this address that drew attention to the probable withdrawal of SEC Accounting Series Release 250 and 264, dealing with proxy disclosure of non-audit services provided issuers by their auditors and the factors to be considered in addressing the effects of such services on accountants' independence. Copies of Chairman Shad's remarks are available by contacting the AICPA's Washington, D.C. office at 202/872-8190, ext. 47.

#### SMALL BUSINESS ADMINISTRATION

Public comments on specific regulations which are adversely affecting small business have been requested by the SBA's Regulatory Identification Working Group, a part of the Administration's Task Force on Regulatory Relief (see the 9/4/81 Fed. Reg., p. 44548). Small business managers and owners are asked to report the specific regulations causing a compliance or paperwork burden and develop a cost estimate of the regulation. Comments should be sent to the SBA's Office of the Chief Counsel for Advocacy, Room 1012, 1441 L Street, N.W., Washington, D.C. 20416, prior to 10/1/81.

#### TREASURY, DEPARTMENT OF

The income tax consequences of investment packages linking all saver's certificates to high yield short term investments was the subject of a recent IRS Revenue Ruling, 81-218. The Ruling indicated that the all saver's certificates (ASC) would not qualify for tax free treatment where the purchase of an ASC is contractually linked to any other investments or benefits. Responding to the proliferation of high yield short term investment offers from banks and thrifts which rollover into tax free ASCs, the IRS said that the interest from the ASC would be subject to taxation if the consumer has no way to halt the rollover of money into the ASC and thus separate the two transactions. For those taxpayers who have already purchased investment packages that require the reinvestment of funds from a repurchase agreement into an ASC, the ruling holds that these certificates will not qualify for the tax free interest benefit. Financial institutions can restore the tax free benefit to purchasers of financial packages by eliminating any penalty for failure to reinvest funds in the ASC 10/1/81, when they become available. The Ruling includes nine sample situations which explain when and under what conditions the ASC will be tax exempt. Rev. Rul. 81-218 will be published in Internal Revenue Bulletin No. 1981-37 on 9/14/81.

Relief may be granted from Rev. Rul. 81-216, issued 8/24/81, which sets out when certain multiple lots of bonds will be treated as a single large issue that does not qualify for tax exempt status (see the 8/31/81 Wash. Rpt.). The IRS said it would consider granting relief to persons adversely affected by the recent ruling who had transactions pending when the ruling was announced. The IRS said persons may seek relief under tax code section

7805(b) which allows the Treasury secretary or his designate to waive the retroactive effect of rulings. Relief will be granted, generally, if it can be demonstrated that there was a significant financial commitment made toward the issuance of the obligations and that there was reliance on revenue rulings revoked by Rev. Rul. 81-216.

Hearings on numerous tax treaties, including the treaty with Canada, will be the subject of a 9/24/81 hearing to be conducted by the Senate Foreign Relations Committee. Assistant Treasury Secretary for Tax Policy, John Chapoton, is scheduled to appear during the morning session which will be devoted to consideration of the treaty with Canada. The afternoon session will consider other treaties, including a recent Administration recommendation to liberalize the tax laws for expenses incurred by U.S. businessmen attending conventions in Jamaica. The hearing will initially be chaired by Senator Charles Percy (R-IL), Chairman of the Committee, and will begin at 10 a.m. in Room 4222 of the Dirksen Senate Office Building.

Implications of the Tax Recovery Act of 1981 and prospects for future tax changes will be the subjects of a conference to be conducted by the U.S. Chamber of Commerce 9/25/81, in Washington, D.C. The featured luncheon speaker will be Norman Ture, Undersecretary of the Treasury for Tax and Economic Affairs. Panels of lawyers, economists and accountants will discuss Public Law 97-34 in detail. Undersecretary Ture will focus his remarks on the possibility of a second tax cut initiative by the Reagan Administration. This conference, to be held at the Madison Hotel, will be limited in attendance according to the Chamber and will cost \$95 per person including the luncheon. For information and reservations contact the Chamber at 202/659-6132.

For additional information, please contact Jim Kovakas, Gina Rosasco, Nick Nichols or Kathee Baker at 202/872-8190.

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